

## INVESTMENT POLICY

### STATEMENT OF PURPOSE

Chapter 15A of Massachusetts General Laws provides that the Westfield State University Board of Trustees (Trustees) has the authority to establish and manage trust funds. The administration of these funds will comply with MGL Chapter 73 § 14 and with MGL Chapter 180A; also known as the Uniform Prudent Management of Institutional Funds Law (UPMIFA). This Investment Policy is intended to serve as a basis for actions of University management in carrying out its investment duties, and for the Trustees in monitoring investment activities. A concurrent responsibility of the management of the funds is the thoughtful investment of trust monies. The University may use the services of one or more investment management firms and/or a bank trust department (Investment Advisor(s)) to carry out the University's investment activities. The basic responsibility of the Investment Advisor(s) will be to keep University management abreast of the economy and market conditions and to invest in a mix of eligible instruments within the context of laws, regulations and this Investment Policy. The Investment Advisor(s) shall be approved by the Board of Trustees as part of this policy. University management may delegate authority to the Investment Advisor(s) to act within the boundaries of this policy.

### SCOPE

This Investment Policy applies to funds that are not appropriated by the Commonwealth of Massachusetts and specifically excludes federal or other restricted allocations. All funds are accounted for in the University's financial reports. The overall goal is to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements and principal growth of certain fund balances.

### DEFINITION OF DUTIES

Board of Trustees - The governing body of the University (the "Board") is established in accordance with the Bylaws of the University. The Board is the ultimate fiduciary of the University with authority over the Assets.

Responsibilities of the Board include:

- Establish and adopt, including this Investment Policy (as amended from time to time), governing the investment and management of the University Assets;
- Delegate implementation and oversight responsibility to the Financial Affairs Committee, which will report directly to the Board;
- Inform the Financial Affairs Committee of the financial requirements of the University so that the Financial Affairs Committee may appropriately direct the investment allocation of the Assets; and,
- Engage an Investment Advisor to advise the Financial Affairs Committee and the University with respect to these duties.

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Financial Affairs Committee - The Financial Affairs Committee, as established by the Board, will (i) adhere to the applicable provisions of this Investment Policy, (ii) review this Investment Policy at least annually, and (iii) propose any changes to this Investment Policy for the Board's approval.

Additional responsibilities of the Financial Affairs Committee include:

- Monitor performance of the investment portfolio, allocation, and Investment Advisor on a periodic basis;
- Report to the Board on a periodic basis regarding the status of the Assets;
- Recommend the selection, monitoring, and termination of the Investment Advisor to the Board;
- Possess sufficient knowledge about the portfolio and its Investment Advisor so as to be reasonably assured of their compliance with this Investment Policy; and,
- Appoint and terminate the custodian.

Management - The Financial Affairs Committee delegates responsibility for executing policies and procedures as outlined in this Investment Policy to the Vice President of Administration and Finance. The Vice President will serve as the primary contact for the Investment Advisor. The Vice President acts on the recommendations of the Financial Affairs Committee and the Board of Trustees.

Investment Advisor - The Investment Advisor is responsible for managing the University's Assets consistent with this Investment Policy.

Responsibilities of the Investment Advisor include:

- Implement and monitor the overall investment strategy, including asset allocation and the selection and termination of the University's holdings;
- Have full investment discretion regarding product selection within this Investment Policy's guidelines;
- Have full discretion to establish, maintain, and modify benchmark(s) that are aligned with the strategic targets;
- Provide the Financial Affairs Committee with quarterly performance reports;
- Assist the Financial Affairs Committee periodically with a review of this Investment Policy, including an assessment of investment objectives, asset allocation ranges, and illiquidity targets if needed;
- Supply the Financial Affairs Committee with other reports or information as reasonably requested;
- Notify the Financial Affairs Committee in writing of any material changes in the investment outlook, portfolio structure, ownership or senior personnel; and,
- Vote proxies and share tenders in a manner that is in the best interest of the University.

## INVESTMENT OBJECTIVE

It is the investment objective of the University to establish and maintain an investment portfolio which is designed to provide for the University's cash flow requirements while also achieving long-term capital growth and appreciation of the portfolio. The basic objectives of this Investment Policy are:

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- a. Preservation of Capital and Safety of Principal – Investment of Westfield State University funds shall be undertaken in a manner that seeks to ensure the reasonable preservation of capital and safety of principal. Implicit in this objective is the financial goal of preserving and enhancing the portfolio's inflation adjusted purchasing power.
- b. Return on Investment - Investment returns are an integral part of the University's annual budget and long-term viability. The portfolio of Westfield State University shall be designed to attain a rate of return that reflects the University spending policy plus inflation to protect purchasing power.
- c. Diversification – Give prudence to diversification in portfolio management.
- d. Time Horizon – Investment decisions should be made with a long-term perspective.

## ASSET ALLOCATION

The responsibility for establishing periodic asset allocation that is consistent with the objectives of the overall Investment Policy is under the purview of the Financial Affairs Committee and with specific responsibilities assigned to the Vice President of Administration and Finance. The investment mix selected should reflect the risk level periodically determined to be appropriate for the University investment portfolio. It is recognized that over the long-term, the asset allocation will be the single most important determinate of the portfolio's investment performance. Therefore, diversification of investments across multiple asset classes that are not similarly affected by economic, political, or social developments is desirable.

Asset allocation of the University portfolio should be equivalent to approximately 60% in equities, 40% in fixed income and 0% in cash. The asset allocation mix should be calculated by aggregating balances across University investment accounts as needed. Managed funds that include both equity and fixed income underlying investments shall be distributed to the appropriate portfolio category for the purpose of reviewing asset allocation. Recognizing that from time-to-time, during the course of business, it is not realistic to expect complete compliance with this guideline. An acceptable range follows:

	<u>Goal</u>	<u>Acceptable Range</u>
Equities	60%	40 – 80%
Fixed Income	40%	25 -65%
Alternative Investments	---	---
Cash	0%	0-10%

Any asset allocation not within these ranges should be communicated by the Investment Advisor to management as soon as practicable, but no later than the next quarterly status report to the University. The portfolio should be re-balanced to fit within the acceptable ranges defined in this policy as soon as practical, taking investment risks into consideration.

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The Investment Advisor will actively manage the assets on an ongoing basis but seek to remain within ranges at all times. Cash flows may also prompt the Investment Advisor to rebalance the portfolio within noted strategic ranges. Should any category move out of acceptable range due to market fluctuations, the Investment Advisor will use prudence in rebalancing the portfolio in a timely fashion. The Investment Advisor is expected to rebalance the portfolio no less than annually.

Rebalancing discussions will be part of the ongoing dialogue between the Investment Advisor, the Financial Affairs Committee, and the Board of Trustees.

## DELEGATION OF AUTHORITY

Oversight responsibility for the investment program is delegated to the Financial Affairs Committee and includes asset allocation, and active management decisions consistent with this policy. No University official may execute or cause any investment transaction except as allowed or provided under the terms of this Investment Policy and specific investment procedures that may be periodically established by the Financial Affairs Committee. The University's investments shall be secured through third party custody and safekeeping procedures. Bearer instruments shall be held only through third party institutions (i.e. a custodian or a trustee).

### Roles and Responsibilities

The Vice President of Administration and Finance, with oversight from the Financial Affairs Committee, shall have the overall responsibility for implementing the management of this Investment Policy. The Associate Vice President of Finance shall have the responsibility of implementing the investment program, including executing the related transactions, accounting and reporting of the activity. The Financial Affairs Committee will appoint the Investment Advisor in consultation with management. Further, the procurement of the Investment Advisor will follow all state and University procurement laws and policies. This Investment Policy's related procedures shall comply with the University's Internal Control Plan.

## ETHICS AND CONFLICT OF INTEREST

The Trustees, officers and employees of Westfield State University involved in the investment process are prohibited from personal business activities that could impair their ability to make impartial investment decisions. The perception of a conflict of interest must be avoided. All ethics rules and laws of the Commonwealth of Massachusetts are hereby incorporated by reference into this policy.

## REPORTING

University management shall provide quarterly reports from the Investment Advisor, summarizing investment activity and detail to the Financial Affairs Committee.

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## AUDITS

The University retains the option to request an independent audit of the funds invested through the Investment Advisor.

## INVESTMENTS

With stability, capital growth and total return as essential objectives in this Investment Policy, available funds will be invested in instruments consistent with the objective and asset allocation methodology.

The University's investment portfolio, for purposes of this policy, shall consist of three major categories of financial investments: (1) fixed income - short and long term (bonds); (2) equity (stocks/managed funds); and (3) cash or cash equivalents.

Total fees (advisory and expenses) for the Investment Advisor will be limited to 100 basis points unless approved by the Financial Affairs Committee.

### 1. Fixed Income - short term and long term (bonds):

(a) *Fixed Income – short-term.* These are investments which have maturities of no longer than one year. The purpose of the fixed-income, short-term investment portfolio shall be to provide sufficient liquidity to meet institutional objectives. The use of this portion of the portfolio shall be consistent with management's anticipated cash flow needs and future investment opportunities.

(b) *Fixed Income – long-term.* These are investments which have maturities of more than one year from the date of investment. The purpose of the long-term portion of the investment portfolio shall be to maximize return within the context of other recognized needs and risks. The portfolio shall be considered for purposes of capital growth and the provision of long-term funding of capital needs. Eligible securities and other restrictions are as follows:

#### 1. U.S. Treasury and Federal Agency Securities

- a. Maximum size of portfolio - no limit
- b. Maximum lot size - no limit
- c. Mutual funds or ETFs consisting of individual securities that meet the above characteristics

#### 2. Corporate Bonds

- a. Aggregate limit of all corporate bonds: 35% of capital (prudently diversified).
- b. All individual corporate bonds shall have an aggregate investment grade rating of Baa3/BBB- or better at the time of purchase. If a bond is downgraded below Baa3/BBB-, the advisor shall sell as soon as prudently reasonable.

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- c. Mutual funds or exchange traded funds (ETFs) consisting of individual securities that meet the above characteristics in aggregate
- d. Mutual funds or ETFs holding broadly diversified portfolios of bonds with credit ratings above Baa3/BBB- in aggregate at the time of purchase.

### 3. Municipal/Other Tax Exempt Issues

- a. Municipal bonds and other tax-exempt bond issues offer an opportunity that allows investors to avoid payment of taxes on income or capital gains resulting from the investment. Since the University is a tax-exempt entity that does not pay taxes, municipal bonds and other tax-exempt bond issues are generally not advantageous to the investment portfolio although not necessarily prohibited within the portfolio. Depending on market conditions, these instruments may be appropriate and attractive even without the benefit of the tax shelter.

### 4. Preferred Stocks (Considered Fixed Income)

- a. Aggregate limit of preferred stocks of 15% of total portfolio (prudently diversified).
- b. All individual preferred have a rating of Baa3/BBB- in aggregate at the time of purchase.

## 2. **Equity (stocks):**

The purpose of the equity investment portfolio shall be to maximize return and provide a hedge against inflation through a diversified approach in compliance with applicable Massachusetts statutes. Eligible securities, appropriate rating service and dividend policy follow.

Equities generally refer to the common stock in publicly-traded companies, but they may also be in the form of managed funds, which include such investment vehicles as mutual funds, exchange traded funds (ETFs) and other types of funds that function in a managed way but are not directly managed by the University's Investment Advisor. Managed funds of this sort are acceptable in the University's portfolio if they are consistent with the standards that otherwise apply to equities.

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Westfield State Custom Benchmark		
		Policy Benchmark
Barclays U.S Aggregate Bond Index	Fixed Income	35%
BofAML 0-3 Month US T-Bill Index	Cash	5%
<b>Fixed Income</b>		<b>40%</b>
MSCI All Country World IMI Index	Global All Cap	60%
<b>Equity</b>		<b>60%</b>

“Alternative Investments” may include private (unregistered) securities such as hedge funds, private equity funds, venture capital funds, commodities, precious or industrial metals, etc. While these are not expressly prohibited in this policy, it is anticipated that they will be used sparingly if at all. This provision also applies to registered “liquid alternative” mutual funds that are designed to mimic private unregistered funds. To the extent that any Alternative Investments are used, they will be counted as Equities for the purpose of reviewing asset allocation.

### 3. Cash and Cash Equivalents:

Cash and cash equivalents are instruments that are relatively “liquid” in nature and are available for operational and/or investment opportunities.

### 4. Prohibited Investments:

Investment in derivative securities, forwards, swaps, futures of any type are explicitly prohibited via direct investment under this policy. Commingled vehicles like mutual funds may implement derivatives in accordance with their fund documents and prudent investment management principles.

### 5. Fossil Fuel and Alternative Investment Strategy:

The University’s Investment Advisors are instructed to consider further divestment from direct holdings in the balance of the Carbon Underground 200 list to the extent the Advisors believe it is financially prudent with the goal of achieving full divestment. The Advisors are further instructed to invest in alternative and/or renewable energy companies, consistent with the parameters of this Investment Policy as they may deem financially prudent.

Note: It is not a requirement that the State Colleges and Universities must avoid the Carbon Underground 200 list. Imposing the requirement may impact investment performance.

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## SPENDING POLICY

The Westfield State University has adopted the following spending policy, which will apply to the University's investment portfolio.

1. This Policy seeks an appropriate balance among the following goals:
  - a. Provide the University with a predictable and stable stream of revenue.
  - b. Ensure the real value (defined as purchasing power) of the invested assets and its revenue stream does not decline over the long-term.
  - c. Base the spending policy on best practices for similar organizations or market segments (e.g., treat the invested funds as endowment like).
2. Authorized expenditures during an upcoming fiscal year shall be limited to four percent (4%) of the average total market value of the investment portfolio over a trailing twelve quarter period ending June 30 fiscal year, not to include additions during the current fiscal year. In the event the average annualized total return for the trailing three-year period fails to equal or exceed 4%, the Investment Advisor shall calculate the new percentage and provide the calculation for review and/or approval to the Financial Affairs Committee for an exception to the 4% threshold. The amount for the upcoming fiscal year is to be calculated quarterly. The final spending calculation and allocation will be provided as soon as practicable, following June 30th and will be reviewed and approved annually by the Financial Affairs Committee.
3. In making such distributions, the University is authorized to use both Net Income and Net Capital Appreciation (defined as realized and unrealized appreciation in the fair market value of the investments) in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).
4. Exceptions to and/or changes in this spending policy shall only be made by approval of the Board of Trustees based on recommendations from the Financial Affairs Committee.

## REVIEW

This policy shall be reviewed annually by the Vice President of Administration and Finance with changes approved by the Financial Affairs Committee and Board of Trustees.